

BUDGET-BALANCING REDUCTIONS

In order to close the \$14.5 billion budget gap, the proposed Governor's Budget includes 10-percent across-the-board reductions to all General Fund departments and programs, Boards, Commissions, and elected offices-including the legislative and judicial branches-except where such a reduction is in conflict with the state constitution or impractical.

This statewide across-the-board reduction approach touches nearly every General Fund program in every department within each branch of state government. While these reductions present numerous challenges to implement, this across-the-board reduction approach is designed to protect essential services by spreading reductions as evenly as possible so that no single program is singled out for severe reductions. Reductions to General Fund budgets not under the control of the Administration are proposed as unallocated reductions. The unallocated General Fund reductions apply to the judicial and legislative branches of government and other entities such as the University of California and some very small executive branch entities.

The amount of the reductions by entity was determined by first establishing the workload budget for 2008-09 pursuant to Government Code Section 13308.05 and existing policies,

MAJOR EXEMPT PROGRAMS

Constitutional Restrictions

- Debt Service/Lease Payments
- Homeowners Exemption
- Health and Dental Benefits for Retirees
- Proposition 42
- Contributions to Public Employees, Judges and Teachers Retirement Systems

Impractical to Implement

- Medi-Cal Rates for Certain Long-Term Care Facilities
- State Hospitals
- Major Revenue Generating Departments (Franchise Tax Board and Board of Equalization)
- CalGrant High School and Community College Entitlement Grants
- Juvenile Justice Programs
- Health Care for Inmates
- Proposition 58 Budget Stabilization Account Transfer (fully suspended)
- Capital Outlay
- Undistributed Employee Compensation
- Non-Proposition 98 Mandates

and reducing the amount for exempt programs, establishing a base for the across-the-board reduction from which a 10-percent reduction amount was calculated. Many of the reductions will require statutory and/or regulatory changes for implementation. Many of the reductions require early implementation in 2007-08 to achieve a full 10-percent reduction in 2008-09.

Within the entire state budget, some programs cannot be reduced for constitutional or practical reasons. See text box “Major Exempt Programs” for a list of exempt programs due to constitutional restrictions or where program reductions are not practical. Through the allocation process described above as implemented by Control Section 4.44, total savings of \$216.6 million in 2007-08 and \$9.1 billion in 2008-09 are proposed.

Figure BBR-01 summarizes the reductions in General Fund amounts and personnel years by agencies. Control Section 4.44 provides a listing of the reduction amount by department. A new statewide display (under item 9944) is provided in the Governor’s Budget. This new display reflects the amount of reductions by agency, department, program, and component, if applicable.

NEED FOR A PRUDENT CASH RESERVE

When the 2007-08 Budget was enacted, the cash flow projected for the state estimated the fiscal year would end with a healthy cash balance of \$11.6 billion after fully repaying \$7 billion of Revenue Anticipation Notes (see text box) issued in November 2007. The \$11.6 billion would be more than sufficient to fund July and August 2008 cash needs. However,

Figure BBR-01
Budget-Balancing Reductions by Agency
(Dollars in Thousands)

Agency	2007-08		2008-09	
	Reductions	Personnel Years	Reductions	Personnel Years
Legislative, Judicial, and Executive	-\$6,568	-8.5	-\$362,847	-34.1
State and Consumer Services	-1,179	0.0	-5,345	-34.2
Business, Transportation, and Housing	-200	0.0	-2,028	-4.1
Resources	-4,204	0.0	-89,271	-296.5
Environmental Protection	-1,600	0.0	-8,338	-16.5
Health and Human Services	-181,062	-11.2	-2,661,209	-367.5
Corrections and Rehabilitation	-17,882	-200.0	-378,901	-5,854.0
K-12 Education	0	0.0	-4,357,251	0.0
Higher Education	0	0.0	-1,132,903	0.0
Labor and Workforce Development	-150	-1.8	-2,055	-16.4
General Government	-3,788	-27.6	-131,947	-213.6
Total Reductions^{1/}	-\$216,633	-249.1	-\$9,132,095	-6,836.9

^{1/} The dollars and personnel years are included in the General Government agency in the applicable Summary Schedules; therefore, not included in the other agencies in those schedules.

since enacting the budget, the budget reserve has deteriorated significantly because of lower-than-expected revenues and higher expenditures. The current year reserve is now projected to have deteriorated from \$4.1 billion to a negative \$3.3 billion, absent corrective actions. The deterioration in the budget reserve has also resulted in a projected cash shortage in March, July, and August 2008 unless swift and significant cash management solutions are put in place.

The Constitution makes payment of Debt Service on General Obligation Bonds one of the state’s two highest fiscal priorities (second only to payments to local school districts).

The Administration is firmly committed to managing cash flow to ensure that timely payment of the state's debts will never be jeopardized. Without prompt action by the Legislature, the state would face a potential cash flow crisis in March, July, or August. Therefore, the Governor's Budget proposes cash management solutions totaling \$8.7 billion. The major cash management solutions proposed are:

- \$3.313 billion—Sell Economic Recovery Bonds by the end of February 2008. Proposition 57 authorizes the sale of these bonds. Therefore, no legislative action is needed to achieve this cash flow solution in time to avoid a problem in March.
- \$1.300 billion—A two-month delay in disbursement of deferred apportionments for K-12 schools and community colleges.
- \$814 million—A two-month delay in disbursements for programs in the Department of Social Services.
- \$584 million—Split the STRS Supplemental Benefit Maintenance Account payment and delay the payment from July to November and April.
- \$500 million—A one-to-five-month delay in gas tax disbursements for local streets and roads, increasing borrowable resources.
- \$454 million—A delay of the four weekly checkwrites for Medi-Cal fee-for-service institutional providers in August until September.
- \$400 million—A delay of \$400 million in advances to regional centers.

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- \$400 million—Reduction in 2007-08 Proposition 98 overappropriation.
- \$232 million—A one-month delay in the Medi-Cal Managed Care Plan payment and Delta Dental Plan payment.
- \$200 million—A two-month delay of the mental health managed care program advance.
- \$165 million—A delay in disbursement for Medi-Cal fee-for-service checkwrite from June to July.
- \$164 million—A one-to-two-month delay in making first quarterly payment to counties for Medi-Cal administration.
- \$92 million—A two-month delay in the quarterly advance to counties for the Early and Periodic Screening, Diagnosis, and Treatment Program.
- \$113 million—Other issues.

REVENUE ANTICIPATION NOTES (RANs)

- The state routinely issues RANs to overcome cash flow imbalances during a fiscal year. Because receipts and disbursements occur unevenly throughout the fiscal year, the General Fund needs to borrow for cash flow purposes even when the budget is balanced.
- RANs cannot be issued until the budget is enacted and it takes a number of weeks after budget enactment to issue and close the transaction.
- RANs must be repaid within the same fiscal year.
- In 2007-08, \$7 billion of RANs were sold in November 2007.

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